

Message Text

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SUBJECT: READJUSTABLE CREDIT LAW PROPOSED

REF: A) MVD A-13, B) MVD 2836, OCT. 3, 1974

C) MVD 2702, SEPT. 21, 1974

1. ACCORDING TO APRIL 6 GOU ANNOUNCEMENT, TECHNICIANS FROM THE BANK OF THE REPUBLIC (BOR) HAVE DRAFTED A BILL, NOW UNDER STUDY IN OFFICE OF THE PRESIDENCY, WHICH WOULD AUTHORIZE LONG-TERM "DEVELOPMENT LOANS" WITH READJUSTABLE OR INDEXED REPAYMENT TERMS. URUGUAY'S CPI INFLATION RATE HAS BEEN 95 PERCENT, 78 PER CENT AND 107 PER CENT OVER THE PAST THREE YEARS. ALTHOUGH LEGAL MAXIMUM INTEREST RATES WERE RAISED LAST YEAR TO 48 PER CENT FOR 1-YEAR TIME DEPOSITS AND SOMEWHAT MORE FOR LOANS, SAVERS ARE STILL EFFECTIVELY DISCOURAGED BY THEIR NEGATIVE RETURN PROSPECTS AND BORROWERS RECEIVE A WINDFALL.

2. THE PROPOSED LAW WOULD ALLOW LOCAL CURRENCY CREDITS OF GREATER THAN TWO YEARS TO BE MADE AVAILABLE TO THE MANUFACTURING AND AGRICULTURAL SECTORS, WHICH PRESENTLY HAVE ACCESS THROUGH THE BANKING SYSTEM ONLY TO SHORT TERM CREDITS 52I.E., ONAYEAR OR LESS FOR REGULAR LOANS, TWO YEARS FOR SOME CAPITAL GOODS LOANS.) IN RECENT YEARS INDEXED CREDITS HAVE BEEN LIMITED TO THE HOUSING SECTOR THROUGH THE GOU'S MORTGAGE BANK, A MODERATE NUM-
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BER OF SUPERVISED PASTURE IMPROVEMENT LOANS UNDER A WORLD BANK

PROGRAM IMPLEMENTED THROUGH THE BOR, AND CRACITS UNDER THE NOW EXPIRED USAID CAPITAL GOODS LOAN.

3. WHILE THESE DEVELOPMENT LOANS WOULD HAVE TO BE OBTAINED THROUGH THE BOR, THE PRIVATE BANKING SYSTEM WOULD ALSO BE AUTHORIZED TO GRANT READJUSTABLE LOANS FOR LONG TERM INVESTMENTS TO FIRMS WHICH HAVE BEEN DECLARED "OF NATIONAL INTEREST" UNDER THE TERMS OF THE INDUSTRIAL PROMOTION LAW (REF A). AS OF THIS DATE, SIX FIRMS HAVE BEEN SO DECLARED.

4. IF ENACTED, THIS LAW WOULD BE ANOTHER STEP TOWARD IMPLEMENTING THE GUIDELINES OF THE AUGUST 1973, SAN MIGUEL MEETING, WHICH CALLED FOR THE CREATION OF READJUSTABLE MONETARY CORRECTION SYSTEMS IN PRIORITY DEVELOPMENT SECTORS, AMONG OTHER REFORMS.

5. COMMENT: ALTHOUGH NO DETAILS OF THE PROPOSED LAW HAVE BEEN PUBLISHED, IT WOULD BE LOGICAL TO COMPLIMENT IT WITH SOME FORM OF READJUSTABLE TIME DEPOSITS TO ATTRACT SAVINGS TO FINANCE THESE CREDITS. AT PRESENT, THE ONLY READJUSTABLE SAVINGS INSTRUMENTS ARE THROUGH SAVINGS BOND ACCOUNTS AT THE MORTGAGE BANK.

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